Richelieu

RICHELIEU HARDWARE LTD.

Constant innovation
is everyone's business.

2000 ANNUAL REPORT

Annual General Meeting of Shareholders – Tuesday, March 27, 2001 at 10:00 a.m. – Auditorium of the Montreal Exchange – 800 Victoria Square, 4th floor, Montreal, Quebec

Positioning

Distribution

Canada's leading distributor and importer of specialty hardware and complementary products

Manufacturing

- Manufacturer of veneer sheets and edgebanding products unique in Canada for its diverse and innovative products marketed around the world
- Manufacturer of laminated panels, tackboards, chalkboards and whiteboards

Markets

- Furniture and kitchen cabinet manufacturers including the commercial woodworking industry
- Hardware retailers including hardware superstores

Network

20 business units

Canada:	16	distribution centres
	2	distribution and manufacturing centres
	1	manufacturing subsidiary
United States:	1	distribution centre

DISTRIBUTION CENTRES
DISTRIBUTION AND MANUFACTURING CENTRES
MANUFACTURING SUBSIDIARY

Quarterly Information

(in thousands of dollars, except per-share amounts)

	1	2	3	4
	$	$	$	$
2000				
• Sales	40,215	51,923	50,601	54,017
• EBITDA	4,021	6,914	6,779	7,240
• Net earnings	1,847	3,441	3,395	3,698
• EPS (basic)	$ 0.16	$ 0.31	$ 0.30	$ 0.33
EPS (fully diluted)	$ 0.15	$ 0.29	$ 0.29	$ 0.32
1999				
• Sales	33,588	43,444	42,851	45,225
• EBITDA	3,308	5,502	5,608	5,657
• Net earnings	1,417	2,609	2,548	2,899
• EPS (basic)	$ 0.13	$ 0.23	$ 0.22	$ 0.25
EPS (fully diluted)	$ 0.12	$ 0.22	$ 0.21	$ 0.24
1998				
• Sales	28,741	37,954	38,566	40,160
• EBITDA	2,794	4,281	4,590	5,028
• Net earnings	1,246	2,059	1,989	2,403
• EPS (basic)	$ 0.11	$ 0.18	$ 0.17	$ 0.21
EPS (fully diluted)	$ 0.10	$ 0.17	$ 0.16	$ 0.20

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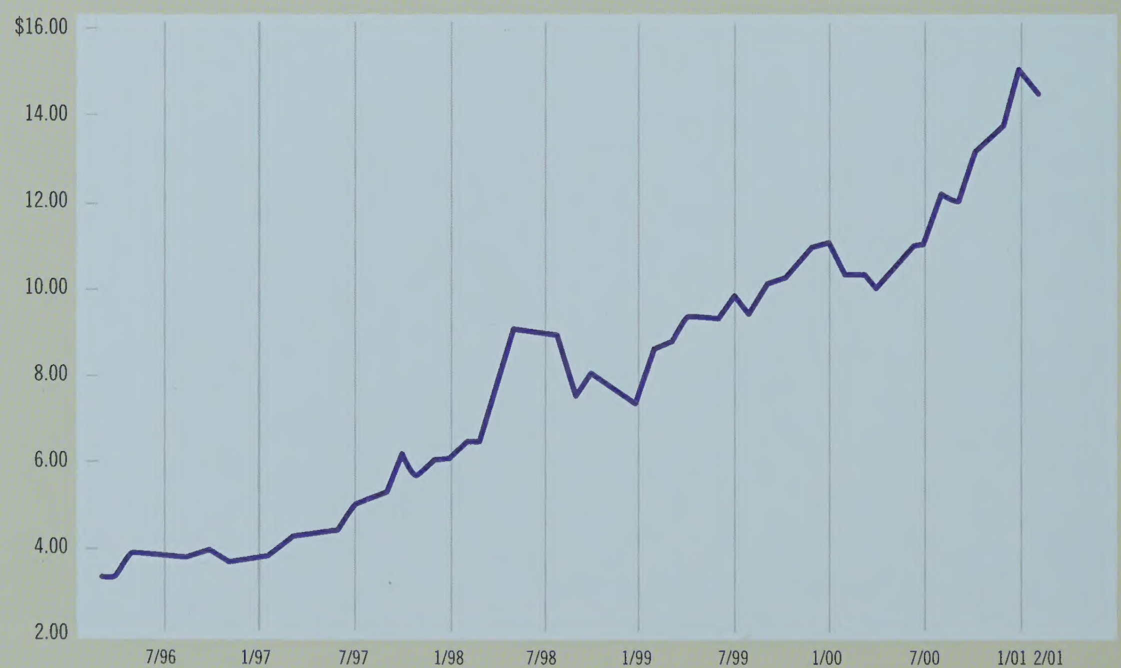


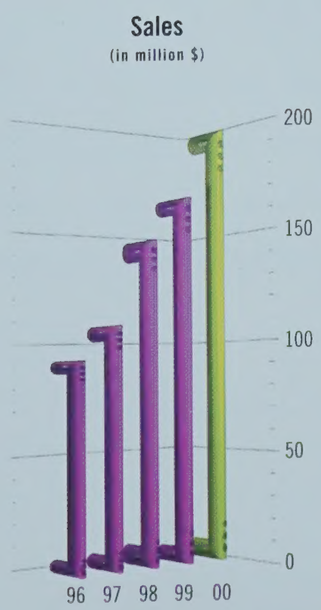
High/Low : $15.25/ $9.75
(12 months ended November 30, 2000)
Share price as at February 1st, 2001: $14.50

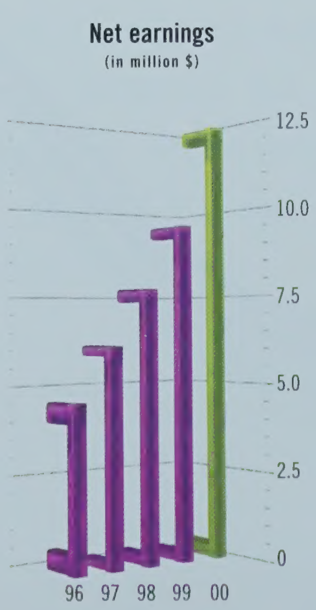
Financial Highlights

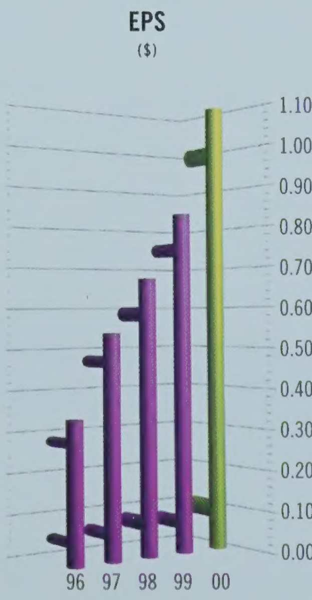
Fiscal years ended November 30
(in thousands of dollars except per-share amounts and ratios)

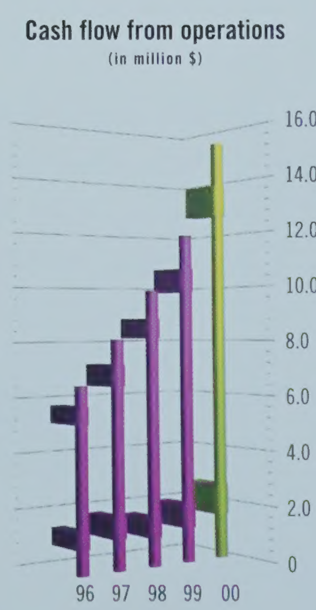
	2000 $	1999 $	1998 $	1997 $	1996 $
Results					
Sales	**196,756**	165,107	145,421	106,645	91,550
EBITDA	**24,954**	20,074	16,693	12,894	9,682
(% of sales)	**12.7%**	12.2%	11.5%	12.1%	10.6%
Net earnings before goodwill charges	**13,153**	10,206	8,379	6,627	5,112
Net earnings	**12,381**	9,473	7,697	6,130	4,615
Net cash flow from operations (1)	**15,354**	11,862	9,829	8,088	6,488
Financial position					
Working capital	**32,809**	30,931	21,947	23,611	17,632
Total assets	**111,364**	87,659	84,138	60,944	57,554
Long-term debt (2)	**4,715**	5,012	4,610	2,942	4,296
Shareholders' equity	**66,842**	58,490	50,622	42,498	36,359
Per share data					
Average number of shares outstanding (000s)	**11,211**	11,461	11,528	11,476	13,670
EPS					
before goodwill charges	**$1.17**	$0.89	$0.73	$0.58	$0.37
after goodwill charges	**1.10**	0.83	0.67	0.54	0.34
EPS (fully diluted)					
before goodwill charges	**1.11**	0.84	0.69	0.55	0.36
after goodwill charges	**1.05**	0.78	0.63	0.51	0.33
Net cash flow from operations (1)	**1.37**	1.03	0.85	0.71	0.48
Book value	**6.01**	5.11	4.37	3.70	3.17
Ratios					
Return on average equity (ROE)	**19.8%**	17.6%	16.5%	15.5%	10.8%
Return on average equity (ROE) excluding goodwill effect	**32.2%**	29.6%	30.6%	27.3%	19.0%
Long-term debt to equity	**7.1%**	8.6%	9.1%	6.9%	11.8%

(1) Before net changes in non-cash working capital balances
(2) Excluding current portion









2000 Highlights

1st Quarter

- Sales growth of **19.7%** and net earnings growth of **30.3%**
- Acquisition of **European Hardware Distributors Ltd.** (Saskatchewan) – January 10th

2nd Quarter

- Sales growth of **19.5%** and net earnings growth of **31.9%**
- Exclusive distribution agreement covering most of Canada for Mohawk's furniture finishing and repair products
- Employee stock option plan
- Normal course issuer bid of $3.3 million

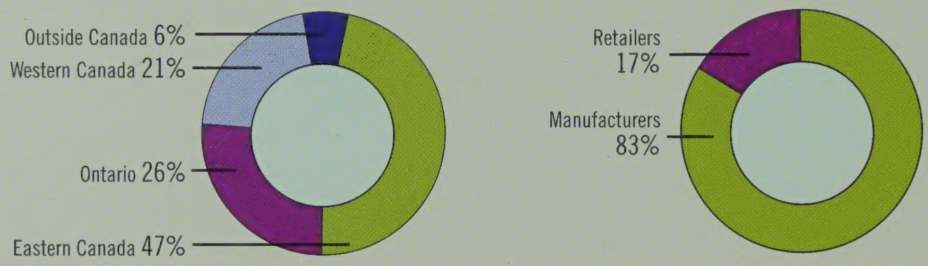
3rd Quarter

- Sales growth of **18.1%** and net earnings growth of **33.2%**

4th Quarter

- Sales growth of **19.4%** and net earnings growth of **27.6%**
- Acquisition of **Les Boiseries Lussier et Fils Inc.** (Quebec City) – October 6th
- Acquisition of the main assets of **Reliable Fasteners (1980) Inc.** (Montreal) – October 13th

Sales
Fiscal 2000



Sales (in million $)

Message to Shareholders

Richelieu's performance was outstanding in the fiscal year ended November 30, 2000, a period of record growth. Our high value-added strategy and successful acquisitions of the last decade continued to yield benefits. The past year was also highlighted by an exceptional broadening of our product lines and three strategic acquisitions – two of them at year-end – giving us access to high-potential, profitable niches.

Richelieu's strong growth year after year reflects our ability to question ourselves about the way we do business regardless of our results and economic conditions. It also reflects our employee commitment and proactive teamwork, which increase initiative and decision-making, quality of service and productivity. At Richelieu, innovation is an ongoing process, not only in our product selection, but also throughout the organization. We constantly make changes, and we measure their quantitative and qualitative impact.

Richard Lord
President and Chief Executive Officer

From 1988 to 2000, Richelieu achieved an annual compound sales growth of 16.5%, derived in equal parts from internal growth and from acquisitions, as it made 16 acquisitions within that period. For the last five years, the return on average equity, excluding the goodwill effect, reached 27.7%.

At Richelieu, everyone participates in the Company's success. In fact, we are proud that over 30% of our employees are shareholders, including some 50% in Western Canada.

The fourth quarter of last year was our 21st consecutive period of growth. **Sales** rose 19.2% to $196.8 million for the fiscal year, including 16.3% internal growth. This strong increase came from all our markets, including the Detroit centre where sales doubled during the year. We would like to highlight our growth in **net earnings**, which jumped 30.7% to $12.4 million or $1.10 per share ($1.05 fully diluted). These excellent results brought our **compound sales and net earnings growth for the last five years** to 20.9% and 22.7% respectively, while further strengthening our financial position. For fiscal 2000, **return on average equity,** excluding the goodwill effect, reached 19.8%, and 32.2%.

We have never launched as many new products in one year. Our selection of decorative hardware doubled in size. We also carved out new niches with three acquisitions and an exclusive distribution agreement. Richelieu thereby strengthened its leadership as the most complete hardware specialist in Canada, with an even more distinctive edge.

We meet demand in a unique way, and we are able to seize sales opportunities at the right time because of a combination of distinctive strengths: an extensive catalogue of complementary specialty products – with more than **25,000 SKUs** today – top-quality service, marketing know-how and a distribution infrastructure that we constantly improve. During the 2000 fiscal year, we started to implement a **warehouse management system** in order to increase turnaround time, quality of service and management efficiency. **The acquisitions made over the past year hold attractive strategic potential, as they open up new growth avenues**. In June 2000, the American manufacturer **Mohawk**, which distributed its furniture finishing and repair products across Canada, granted Richelieu the exclusive distribution rights for most of the country. This essential line of specialty products not only offers great potential, but also opened the doors to the finishing product niche.

In October 2000, we acquired **Reliable Fasteners**, a Montreal-based importer, packager and distributor of screws and related items targeted to our markets. The integration of this specialist enhances the offer to our two types of customers with the full range of products and creates sustainable synergies through our sales force and distribution network.

Also in October 2000, we purchased **Les Boiseries Lussier et Fils**, a Quebec City distributor specializing in the sale of mouldings and appliqués for furniture, kitchen cabinets and other decorative purposes. In our previous annual report, we announced that we had acquired **European Hardware** in January 2000, in the first quarter of the year. Its two distribution and warehousing centres in Regina and Saskatoon gave us a stronger foothold in this region, allowing us to add highly skilled, dynamic human resources in Western Canada.

Over the medium term, we will maximize the growth potential of the acquisitions made in 2000. We will meet this objective by further penetrating our markets, focusing on individual customer relationships, and specializing our sales strategies by product category and market. At Richelieu, sales and service remain the cornerstones of our growth strategy. In fiscal 2000, we expanded our **sales force** and hired product line managers, especially for decorative products and the growing furniture industry. We stepped up the internal **training programs** for our marketing specialists together with the sessions for architects and designers. New **promotional materials** were created to match our broader range of products.

Our transactional web site, in support of our sales and service priority, is now being tested with some customers. This on-line capability complements our marketing approach, creates added value for customers and increases our core value. Site improvements are already under way, such as a 3-D presentation of our products that can be incorporated into kitchen plans.

Providing Internet surfers with easy access to an extensive on-line catalogue of more than 15,000 specialty items, the site at **www.richelieu.com** allows business-to-business transactions and offers a unique source of reference for hardware standards and specifications.

Our outlook for 2001 is most encouraging. Our organic growth should be strong, based on our market penetration, our cutting-edge marketing programs, and the contribution for the entire fiscal year of the three acquisitions made in 2000.

We remain on the lookout for acquisition opportunities. Our **acquisition strategy** is based on a clear view of the acquisition's benefits over the short and long term: its immediate profitability, its input of products and know-how, its synergies and market development possibilities, and its access to high-potential growth niches. **The needs of the residential and commercial renovation, the hardware superstore market and the furniture industry are evolving and growing, fuelled by the latest in manufacturing techniques and new trends in ergonomics, architecture and decoration**. Partnerships with our suppliers – who are world leaders – contribute to keeping us on the cutting-edge of our industry.

Richelieu will carry on its growth through:

- ongoing innovation;
- high-quality service;
- highly skilled workforce;
- a marketing approach based on "Everything under one roof";
- broader and deeper penetration of its markets in Canada and the United States;
- management information to analyze its markets' growth potential and better target its efforts;
- and strategic acquisitions with high growth potential.

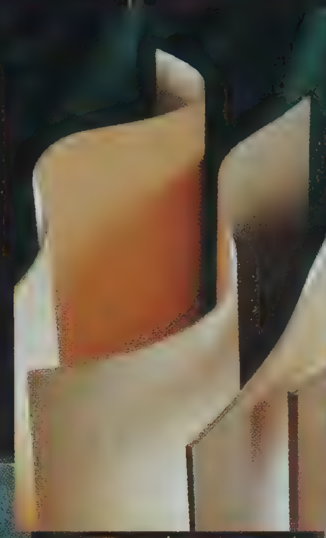
We wish to sincerely thank our employees for their professionalism and dedication which make Richelieu the indisputed industry leader in Canada. We would also like to express our gratitude to our business partners, suppliers and customers for their top-quality and strong support. Finally, our shareholders can be sure of our commitment to continue enhancing the value of their investment in Richelieu by pursuing our winning strategy.

Richard Lord

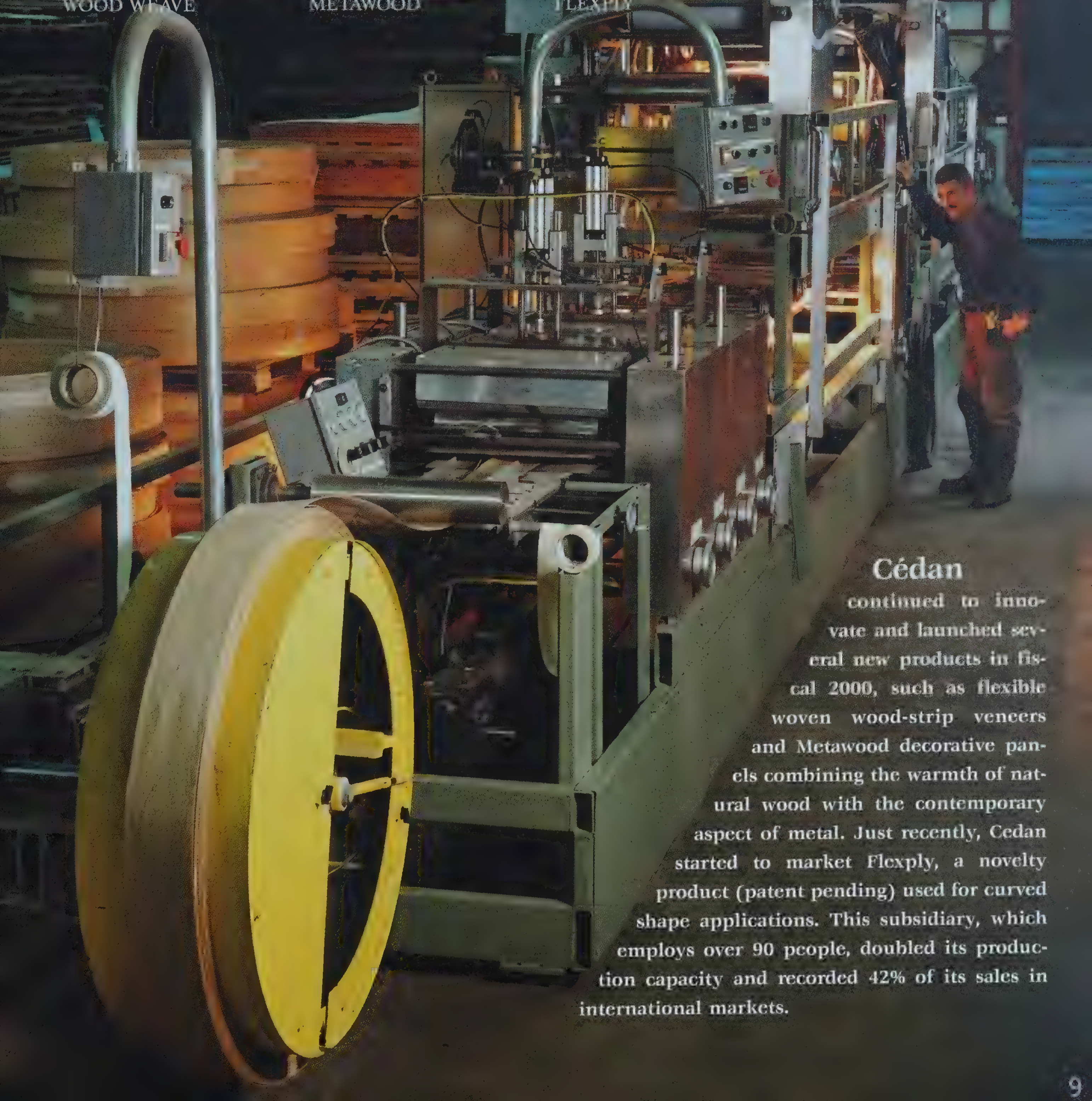
President and Chief Executive Officer

WOOD WEAVE

METAWOOD



FLEXPLY



Cédan

continued to innovate and launched several new products in fiscal 2000, such as flexible woven wood-strip veneers and Metawood decorative panels combining the warmth of natural wood with the contemporary aspect of metal. Just recently, Cedan started to market Flexply, a novelty product (patent pending) used for curved shape applications. This subsidiary, which employs over 90 people, doubled its production capacity and recorded 42% of its sales in international markets.

Management's Discussion and Analysis of Operating Results and Financial Position

Richelieu has achieved a sustained improvement in financial results, quarter after quarter, during the last five years. The fiscal year ended November 30, 2000 was a period of strong growth in sales and net earnings. The Company continued to draw on its dynamic sales force, distinctive marketing programs and its modern Canada-wide distribution organization to take advantage of the economic momentum benefiting the furniture industry and residential and commercial renovation spending, and increase its market share.

Fiscal 2000 was also a year of vigorous expansion, broadening of the product selection and enrichment of expertise, with the acquisition of three companies and an exclusive distribution agreement covering most of Canada for Mohawk's line of furniture finishing and repair products. The acquisitions made in 2000 fit perfectly into the Company's growth strategy – all three businesses being solid and profitable, with strong potential for development and growth through the leverage of Richelieu's organization and sales network.

The operating results of these new companies are accounted for in the financial statements presented in this annual report, effective as of the acquisition dates.

On January 10, 2000, the Company acquired all of the shares of **European Hardware Distributors Ltd.**, a specialty hardware distributor located in Western Canada.

On October 6, 2000, Richelieu purchased all of the shares of **Les Boiseries Lussier et Fils Inc**, a Quebec City distributor of mouldings and appliqués for furniture and kitchen cabinets.

October 13, 2000 saw the acquisition of the main assets of **Reliable Fasteners (1980) Inc.**, a Montreal-based company active in the import, packaging and distribution of screws and related products.

Results

Richelieu posted its strongest internal growth ever in 2000, at 16.3%, all of its markets having contributed to this excellent performance. For the fiscal year ended November 30, 2000, the Company recorded total **sales** of $196.8 million, up 19.2% over $165.1 million for the previous fiscal year, and 35.3% over $145.4 million in 1998. The four quarters contributed almost equally to this growth, with increases of 19.7% for the first three months, 19.5% and 18.1% for the second and third, and 19.4% for the last three months of the fiscal year.

The year's three acquisitions represented $4.8 million or 2.4% of the Company's revenues. They are expected to contribute a total of over $18 million to sales for fiscal 2001.

Earnings before income taxes, interest, depreciation and amortization (EBITDA) rose to $25.0 million, up from $20.1 million in fiscal 1999 and $16.7 million in 1998, reflecting increases of 24.3% and 49.5% respectively. **The EBITDA margin** further improved to 12.7%, up from 12.2% in 1999 and 11.5% in 1998.

Earnings before income taxes and goodwill charges amounted to $22.3 million, compared with $17.4 million in 1999 and $14.1 million in 1998, for growth of 27.9% and 57.8% respectively. Depreciation of fixed assets increased by $227,000 due to investments in computer hardware and software for Richelieu as well as machinery for its manufacturing subsidiary Cedan Industries. Total interest, depreciation and amortization expenses amounted to $2.7 million in fiscal 2000, almost the same as in 1999 and 1998.

Net earnings grew by 30.7% to reach $12.4 million in 2000, compared with $9.5 million in 1999 and $7.7 million in 1998. **Earnings per share before goodwill charges** totalled $1.17 ($1.11 fully diluted), versus $0.89 ($0.84 fully diluted) in 1999. **Earnings per share after goodwill charges** amounted to $1.10 ($1.05 fully diluted), compared with $0.83 ($0.78 fully diluted) for the previous fiscal year. Richelieu has almost tripled its net earnings over the past five years.

Changes in Financial Position

Cash flows from operating activities (before net changes in non-cash working capital balances related to operations) grew by 29.4% or $3.5 million to reach $15.4 million or $1.37 per share, compared with $11.9 million or $1.03 per share in 1999. This growth resulted from the sharp rise in net earnings and the normal increase in depreciation of fixed assets and amortization of goodwill.

Cash flows from financing activities consisted mainly of an increase in short-term loans of $9.7 million to contribute financing for the year's acquisitions and the purchase of shares for cancellation purposes. During the fiscal year, the Company purchased for cancellation 325,380 common shares under a normal course issuer bid, for a consideration of $3.3 million.

Cash flows from investing activities totalled approximately $15 million during the fiscal year. They included the $12.8 million acquisition of the three companies mentioned in the introduction and the $2.3 million purchase of fixed assets covering computer hardware and software to remain on the cutting-edge of the industry, as well as various leasehold improvements and manufacturing equipment for Cedan.

Financial Position

Changes in the balance sheet resulted mainly from the acquisitions made during the year. As at November 30, 2000, **total assets** amounted to $111.4 million, compared with $87.7 million one year earlier, an increase of 27.4%. **Accounts receivable** rose 19.7% to $30.8 million. **Inventories** grew by 42.3% to reach $40.8 million, due to the increase in the product selection and the integration of the three companies acquired in 2000. Goodwill charges were $24.6 million, versus $18.9 million at the end of fiscal 1999.

As at November 30, 2000, **working capital** totalled $32.8 million for a current ratio of 1.84:1, compared with $30.9 million and a ratio of 2.30:1 as at November 30, 1999.

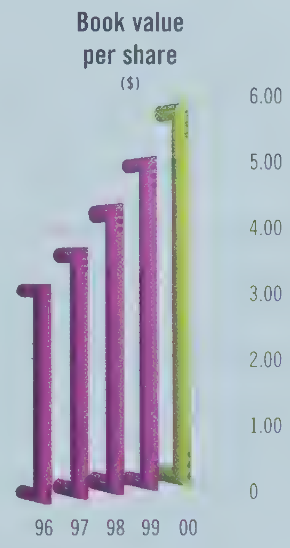
Shareholders' equity rose 14.3% to $66.8 million, up from $58.5 million in 1999, due to an increase of $8.7 million or 18.3% in retained earnings. As at November 30, 1998, shareholders' equity amounted to $50.6 million. The **book value** per share was $6.01, up from $5.11 as at November 30, 1999, and $4.37 in 1998.

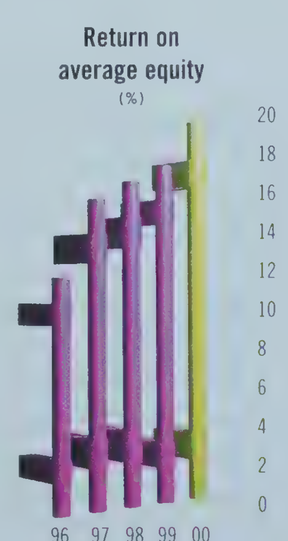
Return on average equity rose to 19.8%, up from 17.6% in fiscal 1999 and 16.5% in 1998. **Excluding the goodwill effect, return on average equity** was 32.2%, compared with 29.6% in 1999 and 30.6% in 1998.

The long-term debt to equity ratio improved to 7.1%, compared with 8.6% in 1999 and 9.1% in 1998.

Outlook

Richelieu expects to achieve excellent performance in fiscal 2001, due mainly to a marketing strategy focused on deeper market penetration, the development of new synergies following its latest acquisitions and other eventual acquisitions.





Directors

Jean E. Douville (2)
Chairman of the Board
Richelieu Hardware Ltd.
Chairman of the Board
Schroders Ventures Canada Inc.

Robert Chevrier (1) (2)
Director of Corporations

Geno F. Francoloni (1)
President and Chief Executive Officer
Xenon Capital Corporation

Mathieu Gauvin (1)
Vice-President
Schroders & Associates Canada Inc.

Richard Lord
President and Chief Executive Officer
Richelieu Hardware Ltd.

Robert L. Trudeau (2)
Chairman of the Board
Trudeau Corporation

(1) Member of the Audit Committee
(2) Member of the Human Resources Committee

Officers

Jean E. Douville
Chairman of the Board

Richard Lord
President and Chief Executive Officer

Georges Albert
Vice-President, Finance

Marion Kloibhofer
General Manager, Central Canada

John Statton
General Manager, Western Canada

Claude Hamilton
General Manager of Divisions

Jean-Pierre Giguère
General Manager
Cedan Industries Inc.

Christiane Jodoin
Lawyer
Corporate Secretary

Part of Richelieu's team which now includes some 600 employees, 300 of whom specialize in sales and marketing and 120 in manufacturing.

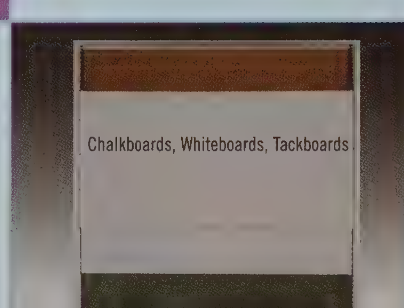
Richelieu supplies hardware retailers and superstores across Canada, including leaders such as Home Depot, Réno-Dépot, RONA, Revy Home and Garden, Sodisco Howden, Home Hardware and Kent Building Supplies... A growth market that it successfully develops with its unique range of products and by providing its customers with marketing programs that are innovative, flexible and tailored to their needs.

Home Depot (Laval, Quebec)

Richelieu's selection consists of over 25,00
specialty hardware items and complementar
products. It is without a doubt the largest i
Canada. Targeted to more than 20,00

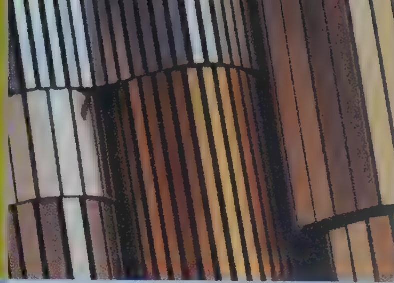
MOHAWK's line of essential, top-performing furniture and repair products is now distributed by Richelieu across most of Canada.

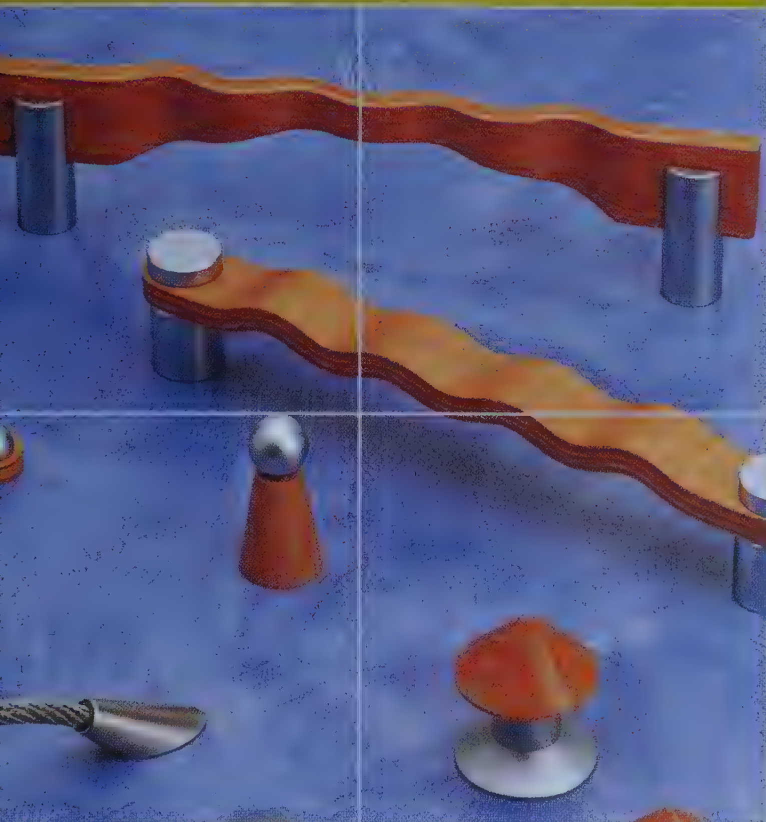
Table with adjustable leg

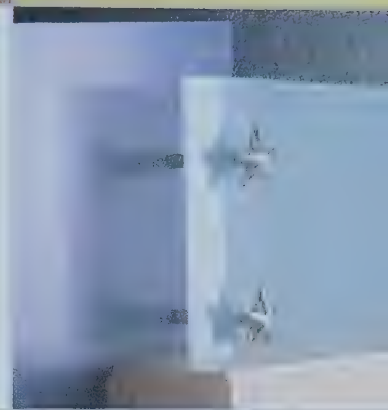


Chalkboards, Whiteboards, Tackboards

Canadian and American customers, it is continually broadened and renewed with the addition of traditional items and some of the most innovative products worldwide.

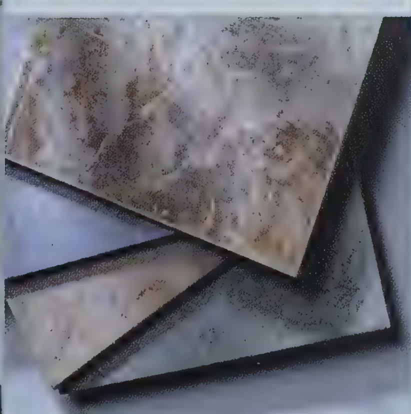






The recent acquisition of *Les Boiseries Lussier et Fils* adds a wide range of mouldings that enhance furniture esthetics and a premises' architectural appearance, and meet new woodworking and decorative trends.

With the acquisition of [illegible] *Fasteners Inc.* at fiscal year-end, Richelieu enhanced its product selection and potential for synergies. This complete new line of screws and related items is targeted to all of Richelieu's customers.



CERAMAX features a broad selection of ceramics for which there is an ever-increasing demand, mainly from hardware superstores.

Laminates, veneers, slides, tracks, acrylic granite surfaces, decorative hardware, etc., are some of the many Richelieu products designed for a multitude of commercial uses... such as renovating and modernizing store chains, hospitals, hotels, restaurants, branches of financial institutions, and manufacturing furniture and various ergonomic accessories.

Browns Shoes Shop (Montreal)

Auditors' Report

To the Shareholders of
Richelieu Hardware Ltd.

We have audited the consolidated balance sheets of **Richelieu Hardware Ltd.** as at November 30, 2000 and 1999 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP
Chartered Accountants

Montréal, Canada
December 22, 2000

Consolidated

balance sheets

As at November 30 (In thousands of dollars)	2000 $	1999 $
ASSETS		
Current assets		
Accounts receivable (note 5)	**30,821**	25,754
Inventories (note 5)	**40,846**	28,695
Prepaid expenses	**187**	191
	71,854	54,640
Fixed assets (notes 3 and 6)	**14,913**	14,094
Goodwill (note 4)	**24,597**	18,925
	111,364	87,659
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank loan (note 5)	**12,884**	3,216
Accounts payable and accrued liabilities	**22,619**	17,977
Income taxes payable	**1,396**	1,494
Current portion of long-term debt (note 6)	**2,146**	1,022
	39,045	23,709
Long-term debt (note 6)	**4,715**	5,012
Future tax liabilities (note 8)	**762**	—
Deferred income taxes	**—**	448
	44,522	29,169
Shareholders' equity		
Capital stock (note 7)	**10,822**	11,138
Retained earnings	**56,020**	47,352
	66,842	58,490
	111,364	87,659

See accompanying notes

On behalf of the Board:

Richard Lord
Director

Jean E. Douville
Director

Consolidated statements of earnings and retained earnings

Years ended November 30 (In thousands of dollars, except earnings per share)	2000 $	1999 $
Sales	**196,756**	165,107
Cost of sales and warehouse, selling and administrative expenses	**171,802**	145,033
Earnings before the following	**24,954**	20,074
Depreciation of fixed assets	**1,704**	1,477
Loss (gain) on disposal of fixed assets	**(12)**	171
Interest on long-term debt	**399**	440
Other interest and bank charges	**572**	560
	2,663	2,648
Earnings before income taxes and goodwill charges	**22,291**	17,426
Income taxes (note 8)	**9,138**	7,220
Net earnings before goodwill charges	**13,153**	10,206
Goodwill charges, net of income taxes of $195 (1999 – $180)	**772**	733
Net earnings	**12,381**	9,473
Retained earnings, beginning of year	**47,352**	39,499
Premium on purchase of shares for cancellation (note 7)	**(3,013)**	(1,159)
Stock options settled in cash, net of income taxes (note 7)	**(700)**	(461)
Retained earnings, end of year	**56,020**	47,352
Basic earnings per share (note 7)		
Before goodwill charges	**1.17**	0.89
After goodwill charges	**1.10**	0.83
Fully diluted earnings per share (note 7)		
Before goodwill charges	**1.11**	0.84
After goodwill charges	**1.05**	0.78
Weighted average number of shares outstanding	**11,211,007**	11,461,485

See accompanying notes

Consolidated statements of cash flows

Years ended November 30 (In thousands of dollars)	2000 $	1999 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	**12,381**	9,473
Items not requiring cash flows		
Depreciation of fixed assets	**1,704**	1,477
Amortization of goodwill	**967**	913
Loss (gain) on disposal of fixed assets	**(12)**	171
Future / Deferred income taxes	**314**	(172)
	15,354	11,862
Net change in non-cash working capital balances related to operations	**(5,573)**	(3,276)
	9,781	8,586
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) of bank indebtedness	**9,668**	(3,850)
Purchase of shares for cancellation	**(3,329)**	(1,321)
Stock options settled in cash	**(700)**	(461)
Repayment of long-term debt	**(488)**	(1,456)
Increase in long-term debt	**39**	–
Issue of common shares	**–**	177
	5,190	(6,911)
CASH FLOWS FROM INVESTING ACTIVITIES		
Business acquisitions (note 2)	**(12,771)**	–
Additions to fixed assets	**(2,275)**	(2,436)
Proceeds on disposal of fixed assets	**75**	761
	(14,971)	(1,675)
Net change in cash and cash equivalents and balances at beginning and at end of year	**–**	–
Other information:		
Income tax paid	**8,004**	7,128
Interest paid	**952**	1,012

See accompanying notes

Notes
to consolidated financial statements

November 30, 2000 and 1999
(Amounts are in thousands of dollars, except per-share amounts)

NATURE OF BUSINESS

Richelieu Hardware Ltd. acts as a manufacturer and distributor of specialty hardware for residential and commercial kitchen cabinet manufacturers, as well as hardware retailers including hardware and home improvement superstores.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada which require management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates. The significant accounting policies used are as follows:

Consolidation

The consolidated financial statements include the accounts of Richelieu Hardware Ltd. and its subsidiaries. All significant intercompany balances and transactions have been eliminated upon consolidation.

Change in accounting policy

During the year ended November 30, 2000, the Company adopted the new recommendations issued by the Canadian Institute of Chartered Accountants relating to accounting for income taxes. Prior to the adoption of these recommendations, the Company followed the deferral method of tax allocation.

This change in accounting policy was implemented retroactively without restating figures of previous years. The impact that the adoption of this new standard had on net earnings for the year ended November 30, 2000 and on the opening retained earnings balance was not material.

Inventories

Inventories are valued at the lower of average cost and net realizable value.

Fixed assets

Fixed assets are recorded at cost. Depreciation is computed under the straight-line method over the following estimated useful lives:

Buildings	20 years
Leasehold improvements	over the terms of the leases
Machinery and equipment	5 to 10 years
Rolling stock	5 years
Furniture and fixtures	5 years
Computer equipment	3 to 5 years

Goodwill

The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill and amortized over a period of twenty to forty years. On an ongoing basis, management evaluates whether there has been a permanent impairment in the value of unamortized goodwill based on an estimate of the future undiscounted operating income of each business to which the goodwill relates.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the assets or liabilities are expected to be realized or settled. Changes in these balances are included in net earnings of the year in which they arise.

Foreign currencies

The Company follows the temporal method to translate its foreign currencies balances and transactions and the accounts of its integrated foreign subsidiary into Canadian dollars. Under this method, monetary assets and liabilities are translated at the rates of exchange in effect at year-end and the other balance sheet items and income statement items are translated at the exchange rates in effect at the date of transaction. Exchange gains and losses are included in net earnings for the period.

Forward exchange contracts

The Company periodically enters into forward exchange contracts with major financial institutions to partially hedge the effects of foreign currency fluctuations related to foreign-currency denominated payables and also to hedge firm purchase commitments. Gains and losses on these forward exchange contracts are recognized in net earnings during the same period as the corresponding anticipated transactions.

Share option plan

No expenses is recognized when share options are issued to employees under the Company's share option plan. Any consideration paid by employees upon the exercise of share options is credited to share capital. If share options are purchased from employees by the Company, the amount paid net of related taxes is charged to retained earnings.

November 30, 2000 and 1999 (Amounts are in thousands of dollars, except per-share amounts)

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Employee share ownership program

The Company has an employee share ownership program under which the Company can contribute to the program based on the employee contribution in order to enable employees to buy the Company's shares on the market. The employees' contribution is limited to 10% of their annual remuneration while the Company's contribution is determined by the board of directors. The Company's contribution is charged to income when the employees' contribution is made under the program.

Earnings per share

Basic earnings per share are calculated using the weighted average number of common shares outstanding during the year. Fully diluted earnings per share are calculated based on the weighted average number of common shares that would have been outstanding had all of the stock options outstanding at year-end been converted into common shares at the beginning of the year or on the date of issuance, if later.

2) BUSINESS ACQUISITIONS

On January 10, 2000, the Company acquired all of the shares of European Hardware Distributors Ltd., a distributor of specialty hardware in Western Canada. On October 6, 2000, the Company also acquired all of the shares of Les Boiseries Lussier et Fils Inc., a Québec City-based distributor of mouldings. In addition, on October 13, 2000, the Company acquired the principal operating assets of Reliable Fasteners (1980) Inc. ("Reliable"), a Montréal company involved in the importing, packaging and distribution of screws and related products. The excess of cost over the fair value of identifiable net assets acquired from Reliable resulted in goodwill of $5,850.

These transactions were accounted for by the purchase method and the results of operations were recorded from the purchase date.

Summary of 2000 acquisitions

	$
Net assets acquired at stated value	
Current assets	7,662
Fixed assets	389
Goodwill	6,639
	14,690
Current liabilities assumed	643
Long-term liabilities assumed	176
Net assets acquired	13,871
Consideration	
Cash	12,577
Balance of sales repaid in 2000	194
Balances of sales payable (note 6)	1,100

The acquisition of European Hardware Distributors Ltd. provides for an additional consideration, to a maximum amount of $150, if a certain amount of earnings is reached before November 30, 2002. The additional consideration will be recorded when determinable.

3) FIXED ASSETS

	2000		1999	
	Cost $	**Accumulated depreciation** $	Cost $	Accumulated depreciation $
Land	**2,968**	**—**	2,889	—
Buildings	**7,996**	**1,687**	7,541	1,247
Leasehold improvements	**1,060**	**973**	1,037	923
Machinery and equipment	**7,570**	**4,230**	6,511	3,699
Rolling stock	**977**	**543**	743	456
Furniture and fixtures	**2,030**	**1,525**	1,832	1,334
Computer equipment	**4,114**	**2,844**	3,612	2,412
	26,715	**11,802**	24,165	10,071
Accumulated depreciation	**(11,802)**		(10,071)	
	14,913		14,094	

4) GOODWILL

	2000 $	1999 $
At cost	**32,301**	25,662
Accumulated amortization	**7,704**	6,737
	24,597	18,925

5) BANK LOAN

The Company has a line of credit available in the amount of $20.5 million (1999 – $18.5 million) which bears interest at prime and is renewable on May 31, 2001. The indebtedness incurred under this line of credit is collateralized by a first-ranking charge on book debts and inventories totalling $53.5 million (1999 – $22.5 million).

November 30, 2000 and 1999 (Amounts are in thousands of dollars, except per-share amounts)

6) LONG-TERM DEBT

	2000 $	1999 $
a) Bank loan maturing in 2003, bearing interest at 6.5%, collateralized by an immovable hypothec.	**4,035**	4,237
b) Bank loan maturing in 2005, bearing interest at the rate of 0.125% above the bank's prime rate, collateralized by an immovable hypothec.	**977**	1,173
c) Bank loan maturing in 2001, bearing interest at the bank's prime rate, collateralized by an immovable hypothec.	**537**	608
d) Bank loan maturing in 2004, bearing interest at 7.75%, collateralized by an immovable hypothec.	**141**	–
e) Balances of sales payable, bearing interest at rates ranging from 5% to 6.25% and maturing at various dates in 2001.	**1,100**	–
f) Other loans maturing at various dates between 2001 and 2005.	**71**	16
	6,861	6,034
Less: Current portion	**2,146**	1,022
	4,715	5,012

The principal instalments due on long-term debt for the next five years are as follows:

	$
2001	2,146
2002	503
2003	3,857
2004	318
2005	37
	6,861

7) CAPITAL STOCK

Authorized

An unlimited number of:

Non-voting first and second preferred shares issuable in series, the characteristics of which are to be determined by the Board of Directors.

Common shares.

Issued

	2000 $	1999 $
11,129,528 common shares (1999 – 11,454,908)	**10,822**	11,138

During 2000, the Company, through a normal course issuer bid, purchased for cancellation 325,380 (1999 – 167,960) common shares for a cash consideration of $3.329 million (1999 – $1.321 million). In addition, in 1999, the Company issued 42,500 common shares at prices varying from $3.42 to $4.40 per share pursuant to the exercise of 42,500 options under the share option plan.

Stock split

On April 9, 1999, the Company's capital stock was modified by a two-for-one stock split of its common shares.

Share option plan

The Company has a share option plan for its directors, officers and key employees. The subscription price of each share issued under the plan is equal to the market price of the shares five days prior to the day the option was granted and must be paid in full at the time the option is exercised. Options may be exercised one year after they were granted on the basis of 25% per year and may not extend beyond ten years from the date they were granted. Under the plan, option holders may elect to receive, at the time the options are exercised, cash equal to the difference between the market price of the underlying shares and the exercise price of the options. As at November 30, 2000, 247,700 (1999 – 150,600) options were still available to be granted. In the last two years, transactions involving options are summarized as follows:

	Options $	Exercise price per share $	Aggregate $
Outstanding, November 30, 1998	1,079,200	3.42 to 8.53	5,107
Exercised	(42,500)	3.42 to 4.40	(176)
Settled in cash	(113,100)	3.42 to 4.40	(476)
Cancelled	(24,500)	8.53	(209)
Outstanding, November 30, 1999	899,100	3.42 to 8.53	4,246
Granted	45,000	10.30 to 14.09	545
Settled in cash	(142,100)	3.42 to 8.53	(620)
Outstanding, November 30, 2000	**802,000**	**3.42 to 14.09**	**4,171**

7) CAPITAL STOCK (Cont'd)

The table below summarizes information regarding the share options outstanding as at November 30, 2000:

	Share options outstanding			Exercisable options	
Range in exercise price (in dollars)	**Number of options outstanding at November 30, 2000** (in thousands)	**Weighted average remaining period** (year)	**Weighted average exercise price** (in dollars)	**Number of options exercisable at November 30, 2000** (in thousands)	**Weighted average exercise price** (in dollars)
3.42 to 4.40	632	4.2	4.05	584	4.06
8.53 to 10.30	143	7.8	8.75	63	8.53
12.70 to 14.09	27	9.9	13.32	—	—
	802			647	

8) INCOME TAXES

The effective income tax rate differs from the combined statutory rates for the following reasons:

	2000 **$**	1999 $
Combined statutory rates	**40.6%**	40.3%
Income taxes at combined statutory rates	**9,050**	7,020
Increase (decrease) resulting from:		
Manufacturing and processing credit	**(119)**	(67)
Miscellaneous non-deductible expenses	**207**	267
	9,138	7,220

Future taxes in the balance sheet reflect the net tax impact of temporary differences between the value of fixed assets for accounting and tax purposes.

9) FINANCIAL INSTRUMENTS

Fair values

The carrying value of the accounts receivable, bank indebtedness, accounts payable and accrued liabilities are a reasonable estimate of the fair value of the instruments because of their short maturity.

The carrying value of the loans included in the long-term debt approximates their fair value either because of the floating rate nature of some loans or because management estimates that the loans payable with fixed interest rates have no significant difference between their fair value and their carrying value, based on rates currently available to the Company on loans with similar terms and remaining maturities.

The carrying value of the forward exchange contracts approximates their fair value because these contracts are recent and have a short maturity date.

Credit risk

The Company sells products to customers primarily in Canada. The Company performs ongoing credit evaluations of customers and generally does not require collateral. As at November 30, 2000 and 1999, no customer accounted for over 10% of the total accounts receivable.

10) COMMITMENTS

a) Leases

The Company is committed with respect to operating leases for warehouse and office premises expiring on various dates up to 2005. The future minimum payments, excluding executory costs for which the Company is responsible, are as follows:

	$
2001	851
2002	571
2003	330
2004	78
2005	21
	1,851

b) Forward exchange contracts

As at November 30, 2000, the Company held the following forward exchange contracts having maturities of less than one year and an average exchange rate of:

Type	Currency	Average exchange rate
Buy	2,350 euro	1.315

11) SEGMENTED INFORMATION

Management has determined that the Company's operations involve the manufacturing and distribution of specialized hardware. Manufacturing activities represent less than 10% of the Company's overall activities.

The Company's sales to foreign countries are primarily directed to the United States and amount to $10.273 million (1999 – $7.760 million).

12) COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted for the current year.

Richelieu

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